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**REPORT OF THE 2ND JOINT AU/ECA CONFERENCE OF MINISTERS
OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT
CAIRO, EGYPT, 2-7 JUNE 2009**



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Forty-second session of the Economic Commission for Africa

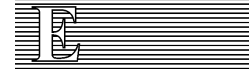


AFRICAN UNION
COMMISSION

Fourth session of CAMEF

**Second Joint Annual Meeting of the AU Conference of Ministers of
Economy and Finance and ECA Conference of Ministers of Finance,
Planning and Economic Development**

*Cairo, Arab Republic of Egypt
6-7 June 2009*



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**REPORT OF THE SECOND JOINT ANNUAL MEETING OF THE AU
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ECA CONFERENCE OF AFRICAN MINISTERS OF FINANCE,
PLANNING AND ECONOMIC DEVELOPMENT**

Introduction

A. Attendance

1. The second Joint Annual Meetings of the AU Conference of Ministers of Economy and Finance and ECA Conference of African Ministers of Finance, Planning and Economic Development was held in Cairo, Egypt from 2 to 7 June 2009. The Conference was formally opened by His Excellency Mr. Sufian Ahmed, Chairperson of the outgoing Bureau of the Conference and Honourable Minister of Finance of the Federal Democratic Republic of Ethiopia. Opening remarks were made by His Excellency Mr. Abdoulie Janneh, United Nations Under-Secretary General and Executive Secretary of the Economic Commission for Africa (ECA) and His Excellency Dr. Jean Ping, Chairperson of the African Union Commission. Statement was also made by His Excellency Mr. Youssef Butrous-Ghali, Minister of Finance of the Arab Republic of Egypt.

2. The meeting was attended by representatives of the following member States: Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Liberia, Libyan Arab Jamahiriya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Senegal, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

3. The following regional economic communities were also represented: Arab Maghreb Union (AMU), Economic Community of the Great Lakes Countries (CEPGL), Common Market for Eastern and Southern Africa (COMESA), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), and the Southern African Development Community (SADC).

4. The following United Nations bodies and specialized agencies and organizations were also represented: African Development Bank (ADB), Food and Agriculture Organization of the United Nations (FAO), International Fund for Agricultural Development (IFAD), International Monetary Fund (IMF), Office of the High Representative for Least Developed, Land Locked and Small Island Developing State (OHRLLS), Office of the Special Advisor on Africa (OSAA), Joint United Nations Programme on HIV/AIDS (UNAIDS), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), United Nations Educational, Scientific and Cultural Organization (UNESCO), United Nations Population Fund (UNFPA), United Nations Children's Fund (UNICEF), United Nations Industrial Development Organization (UNIDO), United Nations Office at Geneva (UNOG), United Nations Office of the High Commissioner for Human Rights (UNOHCHR), the World Bank, and World Food Programme (WFP).

5. Observers from the following Member States of the United Nations were present: Canada, Denmark, Finland, France, Japan, Germany, India, Indonesia, and the United States (Mission to the African Union).

6. Observers were present from the following organizations: Arab African Business, Action Aid International (AAI), African Centre for Applied Research and Training in Social Development (ACARTSOD), African Centre for Meteorological Applications to Development (ACMAD), African Partnership Forum (APF), African Monitor, Arab African Business (AAB), Bank of Central African States (BEAC), European Union (EU), Japan International Cooperation Agency (JICA), League of Arab States (LAS), NEPAD Secretariat, Organization for Economic Cooperation and Development (OECD).

B. Adoption of the agenda and election of the Bureau

The Conference adopted the following agenda:

1. Opening of the Conference
2. Election of the Bureau
3. Adoption of the draft agenda and programme of work
4. Ministerial policy debate on the theme: *Enhancing the effectiveness of fiscal policy for domestic resources mobilization*
 - Implications of the global financial and economic crisis for Africa's long-term development
 - Fiscal policy and domestic resources mobilization: Africa's policy options
5. Launching of the Economic Report on Africa, 2009 (Brief remarks followed by a press conference by the Chairperson of AUC and the Executive Secretary of ECA on ERA 2009 and other topical issues)
6. Consideration of the report and major recommendations of the meeting of the Committee of Experts of the Joint Annual Meetings of the AU Conference of Ministers of Economy and Finance and ECA Conference of Ministers of Finance, Planning and Economic Development
7. Any other business
8. Consideration and adoption of the draft Ministerial Statement and draft resolutions
9. Closing of the Conference

Election of the Bureau

7. The following Member States were unanimously elected by the Conference to form the new Bureau:

Chairperson:	Arab Republic of Egypt
First Vice-Chairperson:	Chad
Second Vice-Chairperson:	Zimbabwe
Third Vice-Chairperson:	Benin
Rapporteur:	Kenya

C. Account of proceedings

Opening of the Conference

8. In his opening remarks, the Chairperson of the outgoing Bureau of the Conference and Honourable Minister of Finance of the Federal Democratic Republic of Ethiopia, Mr. Sufian Ahmed, thanked the Conference for the trust placed in him during his tenure and commended his colleagues on the Bureau for their cooperation. He also thanked the Government and people of the Arab Republic of Egypt for hosting the Conference, and the warm welcome extended to all delegations attending the Conference. Noting that the Conference was taking place during the most severe global financial and economic crisis in a generation, Mr. Sufian said the impact of the crisis on Africa would be severe, as it turns into a human and development crisis. The priority for African countries was therefore to contain the adverse impact of the crisis on growth and poverty, while preserving the hard won gains of recent years, including macroeconomic stability.

9. The honourable Minister noted that the theme of the Conference was particularly timely and relevant as most African countries were experiencing a drop in available finances from sources like remittances, export and commodity demand, aid and capital flows. The Conference would, therefore, provide an opportunity to examine alternative sources of development finance, including improving macro-economic policies, strengthening tax systems, and improving public expenditure management. The outcomes of the Conference would contribute to the upcoming high level meeting of the General Assembly on the global financial and economic crisis and the next G-20 Summit.

10. Mr. Sufian indicated that a substantial part of the development financing gap in African countries should ideally be closed through an increase in domestic savings. However, this was not possible in many countries due to a low income base and an underdeveloped financial sector, which made it difficult to effectively mobilize domestic savings. In this regard, the Minister noted that ODA would continue to remain important in the mix of options for financing development in Africa, and called for promises already made to significantly increase aid flows to Africa to be urgently met. He further noted that the international financial institutions had a crucial role to play in providing more, better and faster financing to help protect investments in

health and education, and in stimulating African economies and creating jobs through infrastructure and trade finance.

11. In his opening remarks, Mr. Abdoulie Janneh, United Nations Under-Secretary-General and Executive Secretary of ECA, welcomed all participants to the Conference and thanked the Government and people of the Arab Republic of Egypt for their generosity in hosting the Conference. He also commended the Chairperson of the outgoing Bureau, and Minister of Finance of the Federal Democratic Republic of Ethiopia, Mr. Sufian Ahmed for the credible leadership he provided during his tenure.

12. Mr. Janneh noted that although the global financial and economic crisis was not of Africa's making, its impacts were being felt across the continent. The remarkable gains achieved over the past decade were now under threat and there was a real risk that millions will be thrown back into poverty (in addition to the over 100 million additional people impoverished globally by the food and fuel crisis last year) and political stability could even be endangered in some countries.

13. Mr. Janneh highlighted four key areas where concerted action was needed on the basis of shared responsibility by Africa and its development partners to mitigate the adverse impact of the crisis and ensure that Africa contributed to global recovery efforts and sustainable development. First, there was a need for immediate measures to preserve Africa's recent gains in economic and social development, including social measures to protect the poor and vulnerable. Second, domestic policy options for responding to the crisis should be explored, including the use of fiscal space to support growth and other long-term objectives such as economic diversification and competitiveness. Third, the need to translate commitments, including those made at the recent London Summit of the G-20, into concerted action and additional resources, including going beyond existing commitments to help Africa meet its increased financing needs. Fourth, the Executive Secretary also stressed the need to accelerate reforms of the international financial architecture, including the governance of international financial institutions to amplify Africa's voice and representation in these processes.

14. He concluded that the Ministerial Statement to be adopted at the end of the meeting would convey Africa's views, concerns and perspectives to the forthcoming G8 meeting in Italy as well as to the next G20 Summit.

15. In his opening remarks, Dr. Jean Ping, Chairperson of the African Union Commission, welcomed participants to the meeting and thanked the people and Government of the Arab Republic of Egypt for their warm hospitality and generosity in hosting the Conference. Dr. Ping noted that the theme of the Conference provided another important opportunity for African countries to contribute to ongoing efforts and initiatives to find solutions to the crisis. He highlighted other initiatives taken earlier by the continent to respond to the crisis, including the Conference of Ministers of Finance and Central Bank Governors, jointly organized by the AU Commission, ECA and the African Development Bank in Tunis in November 2008; the creation of the Committee of Ten (C10), and Africa's participation in the London

G20 summit. These meetings have underscored the need for Africa to adopt a common position and speak with one voice in responding to the crisis.

16. The Chairperson of the AU Commission noted with concern that Africa had gone through three crises within the last 18 months - an energy crisis, a food crisis and a financial crisis, which had hampered ongoing efforts to intensify and diversify agricultural production, improve food security, and maintain macroeconomic stability.

17. Dr. Ping said that the current global and financial crisis demonstrated the failure of the *Washington Consensus* and that of market fundamentalism. He noted that the use of fiscal policy as a tool to counter the effects of the crisis on Africa was consistent with the dominant approach and strategy of the developed countries in introducing stimulus measures to support growth and deal with the crisis. He further noted that Africa would require additional assistance from her development partners to weather the crisis and keep the MDGs within sight. In this regard, he called on the developed countries to meet their commitments in terms of aid and debt relief and ameliorate conditions to access official development assistance.

18. In his opening statement, the Honourable Minister of Finance of the Arab Republic of Egypt, Dr. Youssef Boutros-Ghali, welcomed all the participants to the Conference on behalf of his government. The Minister noted that the increased attention being given to Africa by the international community in recent years was a good development, which the continent should capitalize on. He further noted that the consistent high growth rates of over 5 percent in recent years was an opportunity for the continent to establish itself as a major actor in the world. The Minister, however, noted with concern that the current global financial and economic crisis was already having a severe impact on growth and poverty reduction in Africa due to shrinking revenues, dwindling reserves and reduced access to financing.

19. The Minister expressed his firm belief that through sound fiscal and economic policies, the continent would weather the impact of the financial and economic crisis. Despite the painful effects of the economic slowdown, the Minister indicated that the crisis provided a remarkable opportunity for African countries to fast track growth and come out stronger from the difficult situation.

20. The Minister noted that overcoming the impact of the crisis would require clear vision through collective action and synthesis of ideas and best practices, which were the main objectives of the Conference. He called for significant additional concessional financing for African countries. In this regard, the Minister welcomed the recent decision of the IMF to double its concessional lending capacity to African countries and revising its lending instruments to make them more flexible and responsive to the financing needs of African countries. The Minister underlined the need for African countries to continue to give priority to strengthening social safety nets and maintaining infrastructure spending, even at the cost of higher budget deficits and increased domestic debt burden.

Ministerial policy debate on the theme: *Enhancing the effectiveness of fiscal policy for domestic resources mobilization* (Agenda Item 4)

21. Under this agenda item, two high-level panel discussions were organized on the theme of the Conference focusing on two sub-themes. The first panel examined the implications of the global financial and economic crisis for Africa's long-term development; and a second panel addressed the theme, *Fiscal policy and domestic resource mobilization: Africa's policy options*. The panel discussions were moderated by His Excellency, Dr. Youssef Boutros-Ghali, Minister of Finance, Arab Republic of Egypt.

Session 1: Panel discussion on the implications of the global financial and economic crisis for Africa's long term development

22. His Excellency, Dr. Youssef Boutros-Ghali, Minister of Finance, Arab Republic of Egypt introduced the topics of the first panel discussions with some brief remarks. The Minister noted that the world financial and economic crisis provided an opportunity for African countries to reconsider their growth strategies and focus on mobilizing domestic resources to increase investment and productivity. This would help the countries to achieve their long-term development objectives, including necessary economic transformation to improve resilience against future shocks.

23. On the implications of the decisions of the recent G-20 Summit for Africa, the Minister expressed doubt that Africa would benefit from the additional resources pledged because of the non-concessional nature of the resources. He highlighted some proposals in relation to external support to developing countries, including Africa, including proposals for partial sale of IMF gold to subsidize lending to low income countries; the allocation of new SDRs which should be based on country needs rather than economic size; and enhanced transparency in allocation of funding by multilateral development institutions. He said he was confident of Africa's capacity to weather the storm as long as the continent acted in unison and spoke with one voice. In particular, the Minister urged African countries to remain engaged in ongoing efforts to restructure the global financial architecture at this moment of change. In this regard, he indicated that South Africa and Egypt had been tasked to make recommendations on behalf of Africa on the reform of the governance structure of the IMF, following the April-2009 G20 Summit.

24. Following the introductory statement by Dr. Boutros-Ghali, there was a panel discussion, which addressed various dimensions of the impact of the global financial and economic crisis on Africa's long-term development, including recommendations on what Africa and its development partners could do to mitigate the impact of the crisis.

25. The discussion on these topics was led by a panel composed of Mr. Maxwell Mkwezalamba, Commissioner for Economic Affairs, African Union Commission; Mr. Supachai Panitchpakdi, Secretary-General of UNCTAD; Mr. Jomo Kwame Sundaram, Assistant Secretary-General, UN Department of Economic and Social Affairs (UN-DESA); Mr. Kanayo Nwanze, President, International Fund for

Agricultural Development (IFAD); and Dr. Leonce Ndikumana, Research Director, AfDB.

Africa and the global economic crisis: Challenges and opportunities

26. In his presentation, Dr. Maxwell Mkwezalamba, AU Commissioner for Economic Affairs, highlighted some of the impact of the crisis, including a reduction in trade flows, foreign direct investments, Official Development Assistance (ODA) and remittances. Currency depreciations and falling financial market indices were also among the many adverse effects of the current crisis. In addition, Africa's growth forecast for 2009 had been drastically revised downwards, to around 2 percent, which is significantly lower than the 7 percent annual growth rate required for the attainment of the Millennium Development Goals (MDGs).

27. The Commissioner underscored the need for effective policy responses to comprehensively address the crisis, with particular emphasis on measures to recapitalize capital markets and strengthen financial sector regulation. He highlighted the need for Africa to define a common position in dealing with the crisis and enhance its voice and collective position in the emerging international economic order. The presentation further noted that the crisis created opportunities for Africa in several areas such as regional integration, infrastructure development, economic diversification and domestic resource mobilization. Other opportunities highlighted include the deepening of macroeconomic reforms and improvement of the business climate to attract both domestic and foreign direct investment.

Implications of the global financial and economic crisis for trade and investment in Africa: long-term perspectives

28. In his presentation, Mr. Supachai Panitchpakdi, Secretary-General of UNCTAD, highlighted some of the challenges faced by developing countries, including Africa in mitigating the impact of the global financial crisis. He explained that UNCTAD had published indicators and warned of the crisis long before they were felt across the globe.

29. After reviewing the adverse effects of the current crisis on Africa, including a substantial decline in trade and investment flows, Mr. Panitchpakdi noted that there was a limited scope for countercyclical fiscal policies in many African countries to address this impact due to lack of resources. He noted that it was difficult for these countries to raise tax rates or expand the tax base and urged developed countries to take into account the financing needs of low income and vulnerable countries in formulating their recovery strategies. He observed that while developing countries required external support to meet the challenges posed by the impact of the crisis, their access to financial assistance, especially for investment and foreign trade, remained constrained by stringent conditionality. In this regard, Mr. Panitchpakdi stressed that it was important to spell out more clearly the conditions and modalities for African countries to access the additional resources pledged at the London Summit of the G-20. Meanwhile, international financial institutions such as the African Development Bank should be strengthened and recapitalized in order to

provide investment financing especially for infrastructure, agriculture and environment.

30. Further, Mr. Panitchpakdi reiterated the call by Mr. Boutros-Ghali that the allocation of new SDRs by the IMF should be based on the financing needs of member States rather than the size of their economies or quotas. He called on African countries to ensure their full participation in ongoing efforts to improve global economic governance and negotiate a temporary debt moratorium and at the same time double their efforts to mobilize domestic resources

Economic and social dimensions of the crisis, including the UN response

31. The presentation by Mr. Jomo Kwame Sundaram, Assistant Secretary-General of the UN Department of Economic and Social Affairs noted that the United Nations system had warned of the crisis long before it occurred, but member States failed to heed the warning. Consequently, the world was caught unprepared. Unsustainable global imbalances and an international financial architecture characterized by inadequate and inappropriate regulations were the main causes of the crisis and most developing countries were merely innocent victims. Globalization had been mostly in the area of finance not trade, and there had been net flows of funds from developing to developed countries.

32. Mr. Sundaram further noted that the crisis has led to a significant decline in commodity prices and exports as well as capital inflows to Africa as the recession spread from developed countries to transition and developing countries. He noted that the prospects for economic recovery were uncertain and expected GDP growth rates in Africa to fall far below the population growth rate in 2009. Mr. Sundaram also reaffirmed the high social impact of the crisis, noting in particular the recent ILO estimates that the number of working poor had increased to over 200 million and that of the unemployed people by 51 million.

33. Mr. Sundaram expressed concern that the international response to the crisis had so far focused more on financial stabilization and little attention had been given to addressing the development needs of poor countries. He stressed the need for greater international cooperation in efforts to reform the international financial system and assured the Conference of the support of the United Nations system in the reform process.

Addressing the impact of the crisis on food security, agriculture and sustainable development

34. In his presentation, Mr. Kanayo Nwanze, President of the International Fund for Agricultural Development (IFAD) indicated that the impact of the food and energy crisis had been compounded by the financial crisis, which could in turn affect progress towards meeting the MDGs by reducing capital inflows and internal sources of financing. He noted with concern that investment in agriculture and food production had declined as a result of the global recession, which affected commodity revenue, ODA flows, FDI and remittances. The challenge for African countries, therefore, was to increase investment in agriculture to at least 10 per cent

of public expenditure as agreed by African Heads of State and Government in the 2003 Maputo Declaration in the face of the financial crisis.

35. The President of IFAD indicated that promoting smallholder agriculture remained the best means to resolve the food crisis and achieve sustainable development in Africa. In addition, priority should be given to promoting public-private sector partnerships in large-scale commercial agriculture, including investment in infrastructure especially roads and technology. He, however, cautioned that partnerships with foreign governments and businesses should be properly structured and regulated to protect the rights of the poor.

Additional compensatory measures and development financing for African countries: Implications of the “Group of 20” Declaration for Africa, including the role of the IMF and AfDB

36. In his presentation, Mr. Leonce Ndikumana, Director of Research at the African Development Bank, noted that Africa’s development challenges during this period of the global financial and economic crisis remained fundamentally the same as before the crisis. He highlighted the need to preserve the foundations of growth on the continent by strengthening endogenous growth drivers, promoting domestic investment, particularly in infrastructure, strengthening the banking sector and building new partnerships.

37. Mr. Ndikumana highlighted some of the global and regional responses to the crisis, including the recent commitments by the G20, and new financing facilities developed by the IMF and multilateral development banks. He reaffirmed that Africa may not meet the required conditions to substantially benefit from the additional resources pledged, as the bulk of it would be in the form of short-term loans. In order for Africa to benefit and maximize gains from the global pledge of resources, there was a need for review of the debt sustainability framework, alignment of external financing with national development needs and increased voice and representation for Africa in international processes.

38. The presentation further outlined measures to effectively increase development finance in Africa: improved targeting of interventions taking into account country-specific constraints; enhanced domestic resource mobilization; and continued support to broader regional integration agenda and intra-African trade.

General discussion

39. The discussion emphasized many of the issues and suggestions raised by the panellists, including the adverse impact of the crisis on Africa’s long-term growth and efforts to increase financing for social development. It was added that the outcome of the G20 meeting April 2009 fell short of Africa’s expectations. Africa needs greater say in global governance as well as fiscal stimuli to generate economic growth. The G20 meeting did not fully address these concerns and needs to deliver on its commitments. While African position and demands were well articulated and listened to, it remained to be seen how much of the assistance would actually be delivered.

40. The Conference highlighted strategies for African countries to transform their economies over the medium-to-long term. These strategies include economic diversification through increased investment in agriculture, industry, infrastructure and human capital as well as improvement of the investment climate. The Conference acknowledged the call for enhancing domestic resource mobilization in view of the inadequacy of external finance and the financing needs of Africa. In this regard, the adoption of the statutes of the African Investment Bank was welcomed as it reinforces the regional financial landscape. It was noted that to mitigate the social impact of the crisis some African countries adopted measures to strengthen social safety nets and provide targeted support to the productive sectors affected by the crisis.

41. The Conference acknowledged that while enhancing domestic resource mobilization was important, many African countries required external resources to meet their development needs. The discussion underscored the need to understand why progress in mobilizing domestic resources had been slow despite the commitments made in Monterrey and Galingales.

42. The discussion noted efforts by some African countries to rely on deficit-financing to support countercyclical fiscal policies and noted that the impact of deficit-financing depends on whether deflation or inflation is the biggest problem. If deflation is the main problem as the World Bank warns then deficit financing is warranted by if it is inflation as the EU indicates it will have serious drawbacks.

43. The Conference expressed concern over some key issues influencing Africa's ability to respond to the crisis. First, ODA flows to Africa continue to fall short of commitments made in various fora. Second, while we await the conclusion of the Doha Round, there has been a move towards protectionism manifested in issues such as new environmental and social standards. Third, some African countries have competing interests and work against each other during important negotiations, including trade talks and the Economic Partnerships Agreements (EPAs). Finally, trade liberalization has sometimes undermined food security especially in developing countries that lack capacity to respond to shortages in food supply.

Recommendations

44. The discussion noted that Africa needed long-term growth and development strategies to reduce vulnerability to external shocks such as the current global financial crisis. The State has to be engaged and lead the private sector, which should be enabled to play a more active role in growth and development. To accelerate and sustain growth, Africa needs diversification strategies and sound macroeconomic policies and reforms. The success and failure of strategies hinged on implementation and African countries need to identify constraints and address them in a realistic manner.

45. Critical efforts in this regard encompass investment in infrastructure and human capital development, and in science and technology to enhance productivity, and expand agricultural production for food security. The Conference also underscored the need for African countries to deepen regional integration and enhance intra-

African trade as well as South-South cooperation and to have a coordinated position in trade and EPAs negotiations.

46. The Conference acknowledged that the financial crisis had tempted some African countries to look inward and strengthen their financial institutions. In this regard, special attention should be placed on the capitalization of these institutions. African countries need more effective policies to stimulate the development of their SMEs. In the global arena, the African member of the G20, South Africa, is called upon to advocate for the continent's positions on key issues such as reforming the governance of the IMF and other international financial institutions.

47. Finally, the Conference noted the need to move ahead with progress in some areas of trade negotiations such as cotton and aid for trade and not wait until the Doha Round is concluded.

Session II: Panel discussion on fiscal policy and domestic resource mobilization: Africa's policy options

48. The discussion under this panel featured a presentation by the Secretariat on the role of fiscal policy in domestic resource mobilization. The presentation was followed by a panel discussion addressing four topical issues of concern to African countries: Effective fiscal policy for domestic resource mobilization; taxation, debt sustainability and domestic resource mobilization; the role of ODA in enhancing domestic resource mobilization: the case of Ethiopia; and good governance and domestic resource mobilization. The discussion was led by a panel composed of Mr. Zia Qureshi, Senior Advisor, The World Bank; Mr. Nhlanhla Nene, Deputy Minister of Finance, South Africa; Mr. Sufian Ahmed, Minister of Finance, Ethiopia; and Mr. Martin Khor, Executive Director, The South Centre.

Effective fiscal policy for domestic resource mobilization in the context of the financial crisis

49. The presentation by the Secretariat noted that the reduction in financing from (traditional) external sources had led Africa to concentrate on domestic resource mobilization and presented a comparative analysis of various sources of development finance for the continent. Highlighting that weak infrastructure and governance were obstacles to domestic resource mobilization, the presenter expressed concern over the low rate of savings in Africa and underscored the important role of fiscal policy.

50. The presentation identified some of the important measures for effective domestic resource mobilization such as strengthening domestic revenue collection, boosting private savings and enhancing the role of ODA in domestic resource mobilization. The presentation stressed the need for countercyclical fiscal policies to cushion the effects of the crisis, enhanced domestic resource mobilization to reduce vulnerability to external finance, and to direct more ODA towards building capacity for domestic resource mobilization.

Fiscal policy formulation to address the long-term economic and social impact of the crisis

51. In his presentation, Mr. Zia Qureshi, from the World Bank, discussed fiscal policy issues in the context of the economic and social impacts of the global financial crisis on developing countries and necessary policy responses based on the Global Monitoring Report 2009. He noted that economic growth would slow down in 2009 to 1.6 per cent in developing countries and 1.7 per cent in sub-Saharan Africa. The presentation noted that the crisis requires a global response that could be articulated around six priority areas: an adequate fiscal response to support growth and protect the poor; maintenance of macroeconomic stability; improvement of the investment climate with special attention to strengthening financial systems; leverage of the private sector in achieving the human development goals; scaling-up aid to low income countries; and renouncement of protectionist tendencies in the area of trade and investment . The presentation also highlighted the need for international financial institutions to have adequate resources to respond to the crisis and for developing countries in particular to establish social safety nets and support small and medium scale enterprises.

Taxation, debt sustainability and domestic resource mobilization

52. In his presentation, Mr. Nhlanhla Nene, Deputy Minister of Finance, South Africa, noted that tax revenue would eventually replace aid as the main source of financing for countries that were heavily dependent on aid. Raising sufficient tax revenue allows countries to own their policies and set their own development priorities. He cautioned that replacing aid with tax was more complex due to challenges related to setting the appropriate tax rate, identification of the tax base, and the type of administration and legislation to be put in place for tax collection.

53. He also noted that aid could not be as effective as tax in terms of fiscal policy formulation and management, it should be predictable and flexible enough to facilitate medium to long-term planning. Aid dependent countries need to be assisted to adopt countercyclical policy measures to mitigate the impact of the economic crisis. In this respect, he urged donors to meet their aid commitments and make it more predictable and responsive to spending decisions of recipient countries, including aid allocations to infrastructure especially in the transport, telecommunications and energy sectors.

The role of ODA in enhancing domestic resource mobilization - Ethiopia

54. The presentation on the role of ODA in enhancing domestic resource mobilization in Ethiopia by Mr. Sufian Ahmed, Minister of Finance and Economic Development, Ethiopia, underscored the importance of ODA in financing social infrastructure and other vital development programmes. The Minister noted that there had been a decline in the past few years in ODA flows and only a few developed countries had honored the pledge to commit 0.7 per cent of their Gross National Product (GNP) to ODA flows. While there was no evidence that donors planned to reduce ODA flows to Africa, pressures to recapitalize their banking sectors and provide support to ailing industries could force them to do so.

55. A key message from the presentation was that Africa had to strengthen its capacity to mobilize domestic savings with the view to accelerating gross capital formation and growth. Fiscal policy was a key tool to pursue a broad range of development objectives, but after decades of inefficient fiscal policy management and debt accumulation followed by a period of fiscal restraint, it was time for a new paradigm in the use of fiscal policy. Within that new paradigm, there was a need to ensure that long-term consolidation of public finance did not prevent a more active pro-development use of fiscal policy instruments.

56. The presentation highlighted that when effectively designed and implemented fiscal policy could foster growth and hence stimulate further mobilization of private domestic resources. He concluded by stressing that excessive inflow of aid would likely have a negative effect on revenue generation. States that relied heavily on external aid had less incentive to set up administrative and bureaucratic structures needed for domestic tax collection.

Good governance and domestic resource mobilization

57. The presentation by Mr. Martin Khor, Executive Director, South Centre outlined proposals on addressing the effect of the financial and economic crisis on developing countries. He noted that the effect of the crisis on developing countries was more significant in terms of trade and finance. The trade effect manifested itself in falling commodity demand and prices and the finance effect involved a contraction in credit. As a result social indicators worsened in a majority of developing countries. The presentation highlighted the need for appropriate national, regional and international policies and reforms to address the crisis.

58. The presenter called for the reform of the international system in order to foster financial stability, enhance access to adequate and stable financial resources, avoid debt crises, and stimulate markets for goods and services. He also stressed the need to guard against new trade protectionism aspects of the recovery plans implemented in some developed countries. As for developing countries, the presentation suggested that existing Free Trade Agreements should be reviewed in order to allow them regulate capital flows when necessary. He stressed that the reform of the IMF was crucial and should allow it to support counter cyclical policies and related efforts by developing countries to mitigate the impact of the crisis. A reformed global financial architecture should include the establishment of a multilateral fund to help developing countries deal with the threat of new debt crises and address commodity market risks.

Discussion

59. The discussion focussed on many of issues presented by the panellists, including the various factors influencing resource mobilization, from domestic and external sources, noting that low domestic savings rates in Africa are partly the result of lack of access to formal financial services in rural areas and that the tax base was low because of the large size of the informal economy. The discussion affirmed that

economic transformation was necessary for Africa to enhance domestic resource mobilization, and growth strategies should pay a special attention to infrastructure development and agriculture.

60. The discussion noted that the IMF had introduced general as well as specific data dissemination standards after the previous financial crises in Asia, Russia and Mexico in an effort to avert future crises. However, these standards had not been implemented and their implementation is critical for the world to avoid future crises. The discussion also reaffirmed the importance of regional integration and intra-Africa trade to boost international competitiveness and diversify the sources of growth as a means to reduce vulnerability to crisis.

61. The Conference underscored the importance of countercyclical fiscal policy, noting that it required sufficient fiscal space, which is lacking in many of our countries. This was due to the narrow tax base and the fact that most of the tax revenue was used to pay wages and service external debt. The discussion emphasized that taxes should be used to promote investment and growth as a means to increase public revenue in the future. It was underscored that successful tax systems were business-friendly, affordable and easy to manage.

62. The Conference noted that the world would recover from the current financial and economic crisis just as it did in the past. However, after the crisis, Africa would still be faced with the same problems it faced before the crisis. These problems comprise heavy dependence on commodity exports that precipitate vulnerability to external shocks. Whereas economic transformation in Africa required improved infrastructure and education systems, among other factors, there was a huge financing gap to meet those requirements. This reaffirms the call for more aid to complement Africa's internal revenue efforts in the short to medium term.

Recommendations

63. The following recommendations emerged from the discussion: importance of vision and leadership for Africa to address its chronic development challenges; ownership of Africa's development strategies; complementarity between external financing and domestic resource mobilization; and the use of fiscal policy to promote long-term economic growth and transformation. In particular, fiscal policy should be used to encourage informal businesses to register and encourage investment in rural areas.

64. The discussion recommended that governments should design countercyclical fiscal policies based on outcomes that promote stability and long-term growth. In this regard, the Conference reaffirmed the need to improve the tax system and use fiscal policy to direct investments towards infrastructure and human capacity development. Meanwhile, ODA should be directed towards financing infrastructure and building capacity for domestic resource mobilization. Enhancing revenue mobilization requires continuous strengthening of tax administration, simplification of the tax system and the use of appropriate computer software and technology.

65. The Conference underscored the risks associated with dependence on commodity revenue and recommended that African countries should explore ways to build up foreign reserves for use during times of shocks. They also need to work closely with the international community to stem capital flight and money laundering. Finally, the Conference recommended that the African integration agenda should be rigorously pursued.

Launching of the Economic Report on Africa, 2009 (Brief remarks followed by a press conference by the Chairperson of AUC and the Executive Secretary of ECA on ERA 2009 and other topical issues) (Agenda Item 5)

66. Under this agenda item, a press event was organized to launch the 2009 edition of the Economic Report on Africa (ERA), jointly published by the AU Commission and ECA, on the theme, *Developing African Agriculture through Regional Value Chains*. Speaking at the launch of the report, United Nations Under-Secretary-General and Executive Secretary of the Economic Commission for Africa, Mr. Abdoulie Janneh, said ERA 2009 serves two important functions. First, it tracks Africa's economic and social performance in the previous year within the global context. Secondly, the report makes policy recommendations and suggestions for the future management of African economies.

67. Mr. Janneh informed the Ministers that the focus on agriculture was necessary as it was an important sector in many African countries. He noted that the African Union already had important agricultural programmes such as the Comprehensive Africa Agriculture Development Programme (CAADP) as a framework for developing agriculture.

68. He said the theme of the report was also a response to a decision of the Conference of Ministers of Finance in 2007, when Ministers debated ways of accelerating growth rates to meet the Millennium Development Goals, and one of the recommendations was to revitalize agriculture. He commended the report to the Ministers and looked forward to discussing its recommendations with them.

69. The African Union Commissioner for Economic Affairs, Mr. Maxwell Mkwezalamba, commended the enhanced collaboration between ECA and AU, as evidenced by the joint preparation of the Economic Report on Africa. He said that both institutions were working hard to support the development agenda of Member States. He said the collaboration would create an enduring platform for analysis and forecasting on African economies. He further stated that African countries had given the AU Commission and ECA a mandate to help member States in the fight against poverty, and thanked member States for supporting the institutions in their work. He commended the staff of ECA and the AU Commission for their hard work and expressed sincere hope that the report would contribute to economic policy-making in member States.

70. The report noted that the current global financial and economic crisis would have a severe impact on growth in Africa in 2009, with an average GDP growth forecast at 2 percent compared to 5.1 percent in 2008. The crisis had already resulted in lower

demand for Africa's exports and a sharp decline in commodity prices. At the same time, a projected decline in capital inflows to Africa, including aid, foreign direct investment and remittances would accentuate the impact of the global credit crunch. This would dramatically increase the number of people falling back into poverty and make the attainment of the MDGs more difficult for most countries. Most of the projections, contained in the report, were made on the assumption that oil prices would be around US \$50 per barrel. However, as oil prices were now closer to US \$70 per barrel, the situation could deteriorate further for some countries.

71. ERA 2009 examined the issue of agriculture development in Africa from a regional integration framework. The report noted with concern that Africa had become a net importer of agricultural products to meet its food needs, with an average annual import bill of US \$33 billion of agricultural products, compared to the US \$22 billion in agricultural exports. The report observed that agribusinesses offered an important opportunity to provide forward and backward linkages to agriculture by providing it with inputs such as fertilizers, high-yielding variety seeds and financial services; and forward linkages by processing outputs.

72. Africa's diverse agro-climatic conditions also offered a unique opportunity for producing different products in different countries, and then trading with each other. This would ensure that agriculture benefits from economies of scale to improve competitiveness. The report further stressed that modern agriculture was crucial to development and industrialisation, food security, sustained poverty reduction and integration of Africa in the global economy.

Consideration of the report and major recommendations of the meeting of the Committee of Experts of the Joint Annual Meetings of the AU Conference of Ministers of Economy and Finance and ECA Conference of Ministers of Finance, Planning and Economic Development (Agenda Item 6)

73. Under this agenda item, the Chairperson of the meeting of the Committee of Experts presented the report of the Committee together with eight draft resolutions recommended for consideration and adoption by the Conference, as contained in document E/ECA/CM/42/2 - AU/CAMEF/EXP/Rpt (IV). The Chairperson indicated that the report contained the summary of the main discussions and major recommendations covering the issues on the agenda of the Committee's meeting, including the theme of the Conference.

74. With regard to theme of the Conference, the Chairperson of the Committee said that the Committee welcomed the theme in the light of the current global financial and economic crisis, which had adversely affected external resources for development. The Committee examined various sources of domestic resource mobilization, using a more holistic approach and reaching agreement on different options appropriate for today's global economic environment in order to mitigate the adverse effects of the crisis on development finance in Africa. The Committee underscored the need for policies and strategies for enhancing domestic and external financial resources mobilization through tax and non-tax instruments that are fair, equitable and create minimal disincentives for economic efficiency, and

initiate tax reforms, including widening the tax base and progressively integrating the "informal" sector into the mainstream of the national economy.

75. The Chairperson also highlighted the Committee's observations on the statute of the proposed African Investment Bank, which was extensively discussed by the Committee. In this regard, he said the Committee recommended the adoption of a resolution on the statute and requested the AU Commission to undertake further work on the annexes with legal and finance experts of the member States before submission to the extraordinary session of the AU Conference of Ministers of Finance and Economy (CAMEF) scheduled for November 2009, for adoption.

76. The Chairperson of the Committee then invited the Conference to consider and adopt the report of the meeting of the Committee of Experts. The Conference proceeded to adopt the report with no observations or comments. The full report, as originally adopted by the Committee is attached to the present report as *Annex II*.

77. Following the adoption of the report of the Committee, the Conference separately considered the eight draft resolutions annexed to the report. The draft resolutions covered the following issues discussed by the Committee: (1) Enhancing domestic resource mobilization; (2) Implementation of the African Charter on Statistics; (3) Congress of African economists on sub-regional and regional integration; (4) Proposed Programme of Work and priorities for the Biennium 2010-2011; (5) Statutes of the proposed African Investment Bank; (6) Repositioning of the African Institute of Economic development and Planning (IDEP); (7) Global Financial and Economic Crisis; and (8) Millennium Development Goals.

78. The Committee adopted the eight draft resolutions in light of its own comments, observations and amendments. The eight resolutions, as amended, are attached to this report as part of *Annex I*.

Any other business (Agenda Item 7)

79. No issues were raised under this agenda item.

Consideration and adoption of the draft Ministerial Statement (Agenda Item 8)

80. Under this agenda item, the Conference considered for adoption, the draft Ministerial Statement together with eight draft resolutions.

81. The draft ministerial Statement was introduced by the Rapporteur of the Bureau of the Second Joint Annual Meetings of the African Union Conference of Ministers of Economy and Finance and the Economic Commission for Africa Ministers of Finance, Planning and Economic Development. In his presentation, the Rapporteur highlighted the main sections of the draft statement, which include an introductory part and nine sections, covering the following: Financial and economic crisis; Domestic resources mobilization; Regional Integration; Millennium Development Goals; Climate change; Charter on Statistics; International trade; African Investment

Bank; and Least Developed Countries. The Ministerial Statement also contained a section on Vote of Thanks.

82. In considering the draft Ministerial Statement, the Ministers commended the Rapporteur and the secretariat for clarity and comprehensiveness of the Statement and considered it in details. Some delegates made general comments and observations on various sections of the draft Statement, and through full guidance of the Chairperson they highlighted specific issues requiring minor amendments in the draft. These included: mention of “attendant conditionalities” attached to the multilateral financial support in order to combat the current financial and economic crisis; request for another permanent seat for Africa in the G20; stemming of capital flight, in connection with domestic resource mobilization; and in addition to domestic resource mobilization, request for fulfilment of donor commitments. After explanation offered by the secretariat regarding pending finalization of the conditions and legal issues governing African Investment Bank, and in spirit of cooperation both delegates seeking further amendments to the draft Statement withdrew their observations and proposed amendments.

83. The Conference of Ministers unanimously adopted the draft Ministerial Statement in the light of the above observations and proposed amendments. The amended version of the Statement is attached to this report as part of Annex I.

84. The Ministers also considered and adopted unanimously the eight resolutions with minor amendments to be incorporated by the secretariat. The draft resolutions covered the following areas: (1) Enhancing domestic resource mobilization; (2) Implementation of the African Charter on Statistics; (3) Congress of African economists on sub-regional and regional integration; (4) Proposed Programme of Work and priorities for the Biennium 2010-2011; (5) Statutes of the proposed African Investment Bank; (6) Repositioning of the African Institute of Economic development and Planning (IDEP); (7) Global Financial and Economic Crisis; and (8) Millennium Development Goals. The eight resolutions, as amended, are attached to this report as part of Annex

Closing of the Conference (Agenda Item 9)

85. In his closing remarks, the Executive Secretary of ECA, Mr. Abdoulie Janneh expressed his sincere gratitude and appreciation to all participants, particularly to Ministers for coming to the meeting and for their insightful contribution to the deliberations of the Conference, which clearly demonstrated their leadership and commitment to addressing Africa’s development challenges. He said he was pleased to note that the Conference had become the only forum of its kind to gather African Ministers of Finance, Planning and Economic Development to share experiences on key issues and challenges and reach consensus on policies for addressing such challenges. He further noted that the discussion on the theme of Conference was both insightful and inspiring. He said it was important to ensure that the outcomes of the Conference fed into other important processes such as the next G-8 Summit in Italy and the High-level Meeting on the global financial and economic crisis, to be convened by the President of the General Assembly in late June 2009.

86. On the impact of the financial crisis on development in Africa, the Executive Secretary stated that the crisis was both a challenge and an opportunity for Africa. While the crisis could set back Africa's fight against poverty, it could also be an opportunity for innovation, self-reliance and practical solutions. He emphasized the need for African countries to continue to deepen efforts to achieve economic diversification and enhanced competitiveness for effective integration into the global economy. He thanked the Conference for their guidance and endorsement of the ECA work programme for the biennium 2010-2011 and the proposals to reposition the African Institute of Economic Planning and Development (IDEP), and assured the Conference that he would do his best to live up to the expectations of member States. Mr. Janneh concluded his remarks by paying special tribute to the Chairperson of the Conference, His Excellency, Dr. Youssef Boutros-Ghali for his able leadership and the efficient manner in which he chaired the meetings. He also thanked the people and Government of the Arab Republic of Egypt for graciously hosting the Conference. He thanked all the panelists and the secretariat for their hard work and contribution to the success of the Conference.

87. In his closing remarks, Dr. Maxwell Mkwezalamba, Commissioner for Economic Affairs of the African Union Commission commended the Ministers for their commitment and the actionable recommendations they made on the way forward in addressing Africa's development challenges, particularly in enhancing domestic resource mobilization. He noted that the outcomes of the Conference should provide a blueprint for action at the country, and assured the Ministers that AU Commission and ECA will continue to work closely with other partners to help member States in translating the outcomes into policy actions. He highlighted the issue of the African Investment Bank and emphasized the need for member States to support efforts to accelerate the establishment of the Bank in light of the current financial and economic crisis.

88. In his closing remarks, the Chairperson of the Conference and Minister of Finance of the Arab Republic of Egypt, Dr. Youssef Boutros-Ghali thanked the Conference for the honour and privilege given to him and his country to chair the Conference for the next twelve months. He said he would use the position to make Africa's voice heard in the world and ensure a more forceful presence for the continent on the world stage. Noting that Africa would have to overcome the current crisis on her own efforts, the Minister said the outcomes of the Conference should enhance the capacity of African countries to do so. He emphasized the need for the continent to speak with one voice to enhance its collective position in the world despite the continent's diversity. He noted that Africa is a rich continent with vast potentials and opportunities to attract the same amounts of capital and investments as China and other Asian countries with the right policy environment. He added that African countries needed to be in tune with each other's needs and interests. He indicated that he intended to use his position as Chairperson over the next 12 months to convene a series of meetings and consultations to carry forward the outcomes of the Conference and discuss key issues of interest to member States.

89. The Minister of Finance of the Republic of Cameroon, His Excellency Mr. Essimi Menye gave a vote of thanks on behalf of the Ministers attending the Conference.

The Minister commended the secretariat for organizing a successful Conference. On behalf of all the Ministers and other participants, he expressed sincere gratitude to His Excellency, President Hosni Mubarak as well as the Government and people of the Arab Republic of Egypt for hosting the Conference and the hospitality shown to all delegations attending the Conference. He noted that the theme of the Conference was timely and commended the richness of the discussions. He reiterated the commitment of the Ministers to work closely with the Heads of State and Government in translating the outcomes of the Conference into action in their respective countries.

90. The Chairman then declared the meeting closed.

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